

State of Rhode Island Revenue Brief

FY 2006 Cash Collections through May 2006

Beginning in FY 2004, the State of Rhode Island Budget Office presented a more comprehensive assessment of fiscal year-to-date revenue collections. In particular, the Revenue Brief now contains information on the Other General Revenue Sources. These sources include the Gas Tax Transfer, Other Miscellaneous Revenues, the Lottery Transfer, and the Unclaimed Property remittance.

Users of the report should be cautious when comparing year-to-date growth rates to the revised growth estimate for Other Miscellaneous Revenues and Unclaimed Property as the receipt of these revenues is not continuous. That is, for these two general revenue categories, payments are received at discrete points in time over the course of a fiscal year. Further complicating matters is the fact that the discrete pattern of receipts varies so that payments received do not necessarily occur at the same point in time in each fiscal year.

Total General Revenues

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	4.3 %	3.4 %	4.8 %

Fiscal Year 2006 total general revenues collected through May 2006 have increased by 3.4 percent as compared to Fiscal Year 2005 total general revenues collected through May of last year. The FY 2006 revised growth estimate, adopted at the May 2006 Revenue Estimating Conference (REC), is an increase of 4.3 percent in total general revenues over final audited FY 2005 collections. For the fiscal year-to-date period through May 2006, total general revenues were \$2.682 billion as compared to \$2.593 billion for the same period last year, an increase of \$88.9 million. Due to various causes, which are detailed below, adjustments need to be made to the fiscal year-to-date data for both FY 2005 and FY 2006.

In FY 2005, May year-to-date revenues were understated by \$1.7 million due to two late postings of May 2005 receipts. A late posting occurs when receipts received in one month (e.g., May) are not entered into the state's accounting system until the next month (e.g., June). These late postings were comprised of \$931,000 of sales and use tax receipts and \$818,000 of personal income tax receipts. This FY 2005 adjustment is unique to the *May 2006 Revenue Brief*. The remaining FY 2005 adjustments have appeared in earlier *Revenue Briefs* or are slight modifications to previously cited adjustments.

In FY 2005 motor vehicle license and registration revenues were understated by \$2.3 million. This understatement was due to the late posting of interstate trucking payments made to the forty-nine other states and Canada. Until FY 2005, this posting was made in June of the fiscal year. Beginning in FY 2005, this posting was not completed until July of the following fiscal year. Also in FY 2005, the cigarette tax included \$4.8 million of cigarette floor stock tax collections through May that was not repeated in FY 2006. The cigarette floor stock tax is collected on cigarette packs held in inventory on July 1 at 12:01 a.m. following an enacted

cigarette tax increase. The cigarette tax was increased to \$2.46 per pack for FY 2005. There was no increase in the cigarette tax in FY 2006.

Also in FY 2005, the Office of Accounts and Controls liquidated a total of \$1.0 million for FY 2004 account payables that had not been processed by agencies that had posted them. In addition, Blue Cross Blue Shield of Rhode Island remitted to the State the contractually required settlement payment for the FY 2004 period in January 2005. The general revenue share of this payment totaled \$3.5 million and continues to be reflected as revenue through FY 2005 even though it was accrued back to FY 2004.

In February 2005, the State received \$6.53 million from the Procaccianti Group to retire an outstanding debt it owed the Rhode Island Depositors Economic Protection Corporation (DEPCO). Then, in April 2005, the State received further settlement receipts totaling \$5.7 million including a \$3.0 million payment from Antonio Giordano and his business partners as well as another large settlement, all constituting one-time payments that will not recur this fiscal year.

For FY 2006, the pattern of posting interstate trucking payments late recurred, resulting in FY 2006 motor vehicle license and fees again being understated by \$2.3 million. Taxes on insurance companies are understated by \$442,445 due to the August 2005 transfer of FY 2005 retaliatory fees. For the previous nine fiscal years, this transfer was made in June. As a result, this transfer is reflected as a reduction of insurance companies revenues in fiscal year-to-date 2006.

In addition, it should be noted that the General Assembly enacted a change in the gas tax transfer in the FY 2006 budget. In particular, \$0.01 of the State's \$0.30 per gallon excise tax on motor fuel was redistributed from the general fund to the Rhode Island Public Transit Authority (RIPTA). The transfer rate to the general fund was \$0.02 of the \$0.30 per gallon gas tax in the first eleven months of FY 2005. In the first eleven months of FY 2006, the motor fuel transfer rate to the general fund is \$0.01 of the \$0.30 per gallon motor fuel tax. Further, the General Assembly enacted in the FY 2006 budget an increase in the tax on other tobacco products from 30.0 percent of the wholesale price to 40.0 percent as of July 1, 2005.

The hospital licensing fee rate change from 3.03 percent in FY 2005 to 3.65 percent in FY 2006 requires an adjustment for comparability between fiscal years. Moreover, the Department of Mental Health, Retardation and Hospitals (MHRH) disproportionate share payment of \$12.2 million reflects a decreased rate of reimbursement from 175.0 percent to 100.0 percent of medical costs incurred but which have not been included in federal matching or other reimbursement arrangements. Additionally, the indirect cost recovery transfer rate applied to restricted receipts, which are recorded as general revenues, increased from 7.0 percent to 10.0 percent on April 1, 2005. This indirect cost recovery transfer rate increase was enacted by law on July 1, 2005. Therefore, the actual adjustments to the transfers were made in FY 2006 and accrued back to June 2005 requiring a conversion in fiscal year-to-date revenues through May to make FY 2005 and FY 2006 comparable.

Further, in FY 2006, two prior year sources of general revenue have been reclassified as restricted receipts. The General Assembly converted the pharmaceutical rebates received by the

Department of Elderly Affairs from the Rhode Island Pharmaceutical Assistance to the Elderly (RIPAE) program from general revenue to a restricted receipt effective July 1, 2005. Thus, FY 2006 miscellaneous departmental revenues no longer contain these rebate revenues and an adjustment must be made to render FY 2006 collections comparable to FY 2005 collections. In the year-to-date FY 2005 period, these RIPAE rebates totaled \$2.8 million.

As noted in June's *State of Rhode Island Revenue Brief Special Report on Preliminary FY 2005 Revenues*, the Rhode Island Auditor General (RIAG) determined that the State's treatment of the local match for Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services for special needs students as a state revenue is incorrect. EPSDT services are considered Medicaid eligible services and require state and/or local monies as a match for federal payments. The Medicaid financing split is approximately 55.0 percent federal and 45.0 percent state or local. Currently, the federal government's portion of such expenses is a reimbursement to the local education agency for special needs expenses already incurred. The federal monies are passed through by the state from the federal government to the local education agency and thus the local match is not truly revenue to the state. In FY 2005, \$11.7 million of EPSDT services local match reimbursements had been received through May.

Accounting for these revenue adjustments yields an adjusted rate of growth for the fiscal year-to-date period through May 2006 of 4.8 percent. It should be noted that the adjusted year-to-date growth rate is not necessarily indicative of the projected annual growth. The FY 2005 revised growth estimate, adopted at the May 2006 Revenue Estimating Conference (REC), is an increase of 4.3 percent in total general revenues over final audited FY 2005 collections. The revised estimate is based on the final audited FY 2005 revenues and the May REC FY 2006 estimates. The May 2006 REC increased revenue projections for FY 2006 total general revenues by \$55.6 million from the November 2005 REC.

Taxes and Departmental Receipts

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	4.3 %	4.1 %	4.7 %

FY 2006 taxes and departmental receipts collected through May 2006 have increased by 4.1 percent as compared to FY 2005 collections for the comparable period a year ago. The FY 2006 revised growth estimate, adopted at the May 2006 REC projects an increase of 4.3 percent in total taxes and departmental receipts over final FY 2005 collections. For the fiscal year-to-date period ending May 2006, total taxes and departmental receipts were \$2.401 billion as compared to \$2.307 billion for the same period last fiscal year, an increase of \$94.0 million.

Several adjustments must be made to taxes and departmental receipts in FY 2006. They consist of the insurance companies retaliatory fee transfer, the late motor vehicle licenses and fees' interstate trucking payments, smokeless tobacco tax rate increase, hospital licensing fee increase, change in reimbursement of the disproportionate share payment, and increase to indirect cost recovery fees. These adjustments result in a modification of \$(1.7 million) to FY 2006 taxes and departmental receipts.

Further adjustments are required in FY 2005 to make taxes and departmental receipts comparable with FY 2006. They consist of the late May 2005 posting of taxes collected on personal income and sales and use. They also include the late motor vehicle licenses and fees' interstate trucking payments, the non-recurrence of cigarette floor stock tax, the re-categorization of pharmaceutical rebates, and the EPSDT shift from general revenue to restricted receipts. These modifications result in a modification to taxes and departmental receipts of \$(15.2 million) for FY 2005.

The adjustments to FY 2006 and FY 2005 taxes and departmental receipts modify the difference in collections to \$107.5 million on an adjusted basis, yielding a FY 2006 adjusted growth rate in taxes and departmental receipts of 4.7 percent.

Other General Revenue Sources

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	4.5 %	-1.8 %	5.9 %

FY 2006 other general revenue sources collected through the first eleven months of FY 2006 have decreased by 1.8 percent as compared to collections through the first eleven months of Fiscal Year 2005. The FY 2006 revised growth estimate for other general revenue sources projects an increase of 4.5 percent in other general revenue sources over final FY 2005 collections. For the fiscal year-to-date period ending May 2006, total other general revenue sources were \$280.7 million as compared to \$285.8 million for the same period last year, a decrease of \$5.1 million. It is important to note that the General Assembly decreased the general fund's share of the \$0.30 per gallon motor fuel tax to \$0.01 from \$0.02 beginning in July of FY 2006.

In January 2005, Blue Cross Blue Shield made a \$3.6 million retroactive payment attributable to FY 2004. This payment continued to overstate FY 2005 revenues through the remainder of the fiscal year. Further, the portion of the liquidated FY 2004 Accounts Payable not reversed in February 2005 amounted to \$1.0 million. The \$6.5 million Procaccianti DEPCO payment received in February 2005 was unanticipated revenue in FY 2005 that will not repeat, as was the \$5.7 million payment received in April 2005 from Giordano and another debtor. Accounting for these FY 2005 and FY 2006 adjustments yields adjusted FY 2006 growth for other general revenue sources of 5.9 percent.

Total Taxes

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	4.0 %	4.2 %	4.4 %

Total tax revenues for the fiscal year-to-date period through May 2006 were \$2.148 billion, or 4.2 percent more than the \$2.061 billion in total taxes collected in FY 2005 through May 2005. The FY 2006 growth estimate for tax collections, adopted at the Revenue Estimating Conference in May, is 4.0 percent over final FY 2005 tax collections. Listed below are the modifications that must be made to determine the adjusted growth rate for total taxes.

In FY 2005, \$2.3 million in motor vehicle license and fee revenues were not reflected due to the late payment of FY 2004 interstate trucking fees. As a result of the cigarette tax increase from FY 2004, \$4.8 million of cigarette floor stock tax was collected in FY 2005 through May 2005 and did not repeat in FY 2006. Further, the late postings of personal income and sales and use May 2005 revenue statement in the amount of \$1.7 million. In FY 2006, motor vehicle license and fee revenues were again underreported in FY 2006 by \$2.3 million as a result of the late payment of FY 2005 interstate trucking fees. In FY 2006, insurance companies gross premiums taxes are understated by \$442,445 due to the late transfer of FY 2005 retaliatory fees. Finally, the tax on smokeless tobacco products increased by 10.0 percentage points on July 1, 2005 generating additional revenues for FY 2006. These modifications yield an adjusted FY 2006 growth rate of 4.4 percent for total taxes.

Personal Income Taxes

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	2.5 %	2.9 %	2.8 %

Actual personal income tax collections for FY 2006 through May 2006 are increasing, with a 2.9 percent increase compared to the same period last fiscal year. The FY 2006 fiscal year-to-date growth rate exceeds the FY 2006 revised growth of 2.5 percent over final FY 2005 personal income tax collections rate adopted at the Revenue Estimating Conference in May.

FY 2006 year-to-date income tax refunds paid are greater by \$32.8 million, or 18.0 percent, compared to the same period in FY 2005. The 18.0 percent actual growth in cash income tax refunds paid between FY 2006 and FY 2005 is slightly lower than May's revised growth rate for income tax refunds paid of 21.2 percent. The Division of Taxation reports that in the period January 1, 2006 to May 29, 2006, 381,796 income tax returns with an average refund due of \$436.66 were processed. In the period January 1, 2005 to May 30, 2005, 376,050 income tax returns with an average refund due of \$403.99 were processed. Thus, between comparable periods in FY 2006 and FY 2005, 5,746 more income tax returns with a refund due were processed and the average amount of the refund increased by \$32.67. Thus, it seems that, at this time, income tax refunds paid have grown compared to the same period last fiscal year. Historically, on average, over the last five fiscal years 99.2 percent of total income tax refunds are paid through May of the fiscal year.

Income tax withholding payments have increased by \$19.8 million, or 2.7 percent, through the first eleven months of FY 2006 when compared to the same period in FY 2005. The 2.7 percent growth in cash withholding payments between FY 2006 and FY 2005 is lower than the May Revenue Estimating Conference's revised cash growth estimate for income tax withholding payments of 3.1 percent over final FY 2005 income tax withholding payments. The lagging income tax withholding payments are of concern since on average, over the past five fiscal years, 91.8 percent of income tax withholding payments were collected in the first eleven months of the fiscal year.

The low growth in income tax withholding payments received is attributable in part to unusually high income tax withholding payments the State received in FY 2005. In FY 2005, a number of employees of a Rhode Island based financial institution received severance payments that were significant in amount. Federal law requires that such payments be subject to withholding at a rate of 28.0 percent which equates to a 7.0 percent withholding rate at the state level. In the first six months of FY 2005, extraordinary withholding payments totaling \$13.0 million were made to the State as a result of this action. These income tax withholding payments will not be repeated in FY 2006. Actual fiscal year-to-date 2006 collections are less than the anticipated amount estimated at the November 2005 REC (the November REC participants were not made aware of these extraordinary income tax withholding payments at the time of the conference) and resulted in a downward revision at the May 2006 REC, from 4.7 percent to 3.1 percent growth over final FY 2005 withholding payments.

There has been a substantial increase in final income tax payments received. Fiscal year-to-date final income tax payments are up \$29.9 million, or 18.7 percent, through May of FY 2006 as compared to final payments for the first eleven months of FY 2005. The 18.7 percent actual growth in cash final income tax payments received between FY 2006 and FY 2005 is in line with the revised cash growth rate for final income tax payments estimated at the May 2006 REC of 18.8 percent. At this time, the sizeable increase in final income tax payments received is significant given that, on average over the last five fiscal years 97.6 percent of total final income tax payments are received in the first eleven months of the fiscal year.

Finally, with respect to estimated income tax payments, year-to-date FY 2006 collections are up \$7.1 million from FY 2005 collections at this time last year. This increase translates into a fiscal year-to-date growth rate of 4.4 percent. The 4.4 percent actual growth in cash estimated income tax payments received between FY 2006 and FY 2005 is higher than May's adopted cash growth rate for estimated income tax payments received of 3.6 percent. On average, over the last five fiscal years, 82.1 percent of total estimated income tax payments are made by the end of May.

Sales and Use Taxes

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	3.2 %	3.1 %	3.0%

Sales and use tax collections in FY 2006 are up \$23.8 million, or 3.1 percent, relative to last fiscal year at this time. As always, the monthly sales tax receipts reported here reflect the prior month's retail sales activity. For both FY 2005 and FY 2006, the state's sales tax rate is 7.0 percent. Adjustments must be made to correct for revenue collected in May 2005 that were posted late in June 2005. The late posting of \$931,000 brings the FY 2006 year-to-date growth rate through May down to 3.0 percent on an adjusted basis for sales and use taxes.

On July 1, 2005 at 12:01 am, prepayment of the sales tax on retail cigarette sales was initiated. The sales and use tax now includes the prepaid sales tax receipts, yielding no difference between the actual and adjusted growth rate for sales and use tax collections. Fiscal year-to-date collections of prepaid sales tax on retail cigarette sales through May 2006 total \$16.4 million. The 3.1 percent growth in sales and use tax revenues for fiscal year-to-date 2006 is slightly lower

than the May 2006 Revenue Estimating Conference revised FY 2006 growth rate of 3.2 percent over final FY 2005 sales and use tax.

According to the Division of Taxation, within the sales tax components, registry receipts were down 6.7 percent in the first eleven months of FY 2006 when compared to same period last fiscal year. Net sales tax receipts remitted directly to the Division of Taxation posted a gain of 4.2 percent during FY 2006's first eleven months versus the first eleven months of FY 2005. This gain includes the adjustment for the late posting of \$931,000 in May 2005. Providence Place Mall (PPM) sales tax receipts were up 1.4 percent through May of FY 2006 versus the same period in FY 2005.

General Business Taxes

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	17.6 %	23.3 %	23.5 %

In general, it is possible at this time to begin to discern patterns in this year's general business tax collections. Most general business taxes are paid in March and June of the fiscal year, with 40.0 percent of total tax liability due in March and 60.0 percent of total tax liability due in June. Presumably, the fiscal year-to-date May 2006 data reflect the receipt of this first payment and, as a result, the general business tax components can be analyzed in detail.

Total general business taxes collected in the fiscal year-to-date May 2006 period were \$235.9 million or \$44.6 million more than the \$191.3 million collected for the same period in FY 2005. Year-to-date growth in FY 2006 is 23.3 percent. In August of FY 2006, a debit of \$442,445 was made in insurance companies taxes to pay for FY 2005 retaliatory fees, requiring an adjustment to general business taxes. As a result, adjusted FY 2006 growth in general business taxes is 23.5 percent. The revised estimated growth rate as determined by the May 2006 Revenue Estimating Conference is 0.2 percent. The increase in the estimated growth rate from the November 2005 REC is primarily attributable to the incorporation of data from the business corporations taxpayer who experienced an event resulting in unusually high liability in FY 2005 and even more so in FY 2006. This information was not made available until the May 2006 conference.

FY 2006 year-to-date business corporations taxes are up \$36.5 million, or 43.5 percent, from last fiscal year at this time. It should be noted that in December 2004 a business corporations taxpayer failed to meet the requirements specified in Rhode Island General Laws, Title 44, Chapter 43, Section 8, Subsection 7(d) and was mandated to pay to the Division of Taxation \$4.2 million. This payment is currently under appeal by the taxpayer. This payment may constitute a one-time recapture of tax credits granted however the appeal has not yet been decided. Further, as noted above, at the May 2006 Revenue Estimating Conference's Division of Taxation briefing on May 1, 2006, the Division of Taxation testified that a single business corporations taxpayer reported that an event resulted in unusually large tax liability payments for FY 2005 and FY 2006. This taxpayer has indicated that they paid \$23.5 million in business corporations taxes in FY 2005 and are expecting to pay a total of \$41.1 million in FY 2006. Payments received from this taxpayer have totaled \$33.1 million through May 2006. These payments are not adjusted out of the year-to-date growth rate for business corporations taxes, however they do explain much of

the unusually high growth in business corporations taxes and have been incorporated into the May 2006 REC adopted estimate for business corporations of 36.2 percent. In the FY 2001 to FY 2005 period, an average of 65.0 percent of total business corporations taxes were collected in the first eleven months of the fiscal year.

Health care provider assessment taxes through May 2006 were \$42.5 million, a decrease of 0.8 percent from the same period in FY 2005. The health care provider assessment collections flow more evenly into the general fund over the course of the fiscal year, with a five-year average percent of total collections of 89.8 percent for the first eleven months of the fiscal year.

Public utilities gross earnings taxes are up 15.9 percent, or \$6.2 million. In September, a public utilities gross earnings tax filer paid \$5.0 million in taxes in order to meet “safe harbor” provisions for its tax year 2005 estimated liability. In calendar year 2004, the public utility’s gross earnings liability was \$29.3 million. In March 2005, an estimated payment of \$10.4 million was made and in June 2004 another estimated payment of \$14.0 million was made. In order to meet the “safe harbor,” the public utility paid an additional \$5.0 million in September 2005. Although this \$5.0 million is related to Fiscal Year 2005, it will not be accrued back as it is an unusually late payment rather than an erroneous payment.

The insurance companies tax is up 3.6 percent year-to-date. There was a late transfer of \$442,445 in retaliatory fees claimed on insurance companies taxes collected for the 2004 calendar year. These fees should have been posted in FY 2005 when the insurance companies’ tax returns were collected. Instead, the retaliatory fees were transferred late, during FY 2006, creating an understatement in year-to-date collections through May 2006.

Financial institutions tax refunds exceed financial institutions tax payments by \$242,635. In FY 2005, financial institutions tax refunds exceeded financial institutions tax payments by \$1.5 million. Thus, compared to FY 2005, FY 2006 financial institutions taxes on a year-to-date basis are 83.7 percent less or \$1.2 million more than for the same period in FY 2005. In FY 2005, by May, a significant refund had been issued to a financial institution and no comparable refund has been issued to date this fiscal year.

Finally, the cash balance in bank deposit tax collections is \$604,070 through the first eleven months of FY 2006, a 4.8 percent decrease from FY 2005 collections through May 2005. The first 40.0 percent of total tax liability is due in March. Through May of the fiscal year, bank deposit tax collections have averaged 46.2 percent of total fiscal year collections over the past five years.

Excise Taxes Other Than the Sales and Use Tax

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-4.4 %	-2.5 %	-0.1 %

Excise taxes other than sales and use taxes collected in the fiscal year-to-date May 2006 period totaled \$170.5 million or \$4.3 million less than the \$174.9 million collected for the same period in FY 2005. Motor vehicle receipts were understated by \$2.3 million for July 2004 due to a

delay in the posting of June 2004 interstate trucking payments by the Division of Motor Vehicles. In FY 2006, June 2005 interstate trucking payments were again made in July causing an understatement in motor vehicle license and fee revenues for the second straight year. Further, in FY 2005 the State raised its cigarette excise tax from \$1.71 to \$2.46 per pack of 20 cigarettes. This tax increase generated approximately \$4.8 million in cigarette floor stock tax revenues through May of FY 2005. No such payments are expected in FY 2006. Finally, the enacted 33.3 percent increase in the tax rate on smokeless tobacco products adds an estimated \$540,627 to cigarette tax revenues in FY 2006. Adjusting for the above postings yields an adjusted growth rate of -0.1 percent in excise taxes other than the sales and use tax.

Rhode Island cigarette tax receipts are comprised of excise taxes collected on the sale of cigarettes, smokeless tobacco (which also includes cigars and pipe tobacco), and a one-time cigarette floor stock tax. The cigarette floor stock tax is imposed only when there is an increase in the excise tax on cigarettes. In FY 2005, the cigarette excise tax was increased by \$0.75 per pack of 20 cigarettes. In FY 2006, no increase in the cigarette excise tax was passed into law and, as a result, no cigarette floor stock tax revenues are expected for this fiscal year. Although there was no change in the excise tax rate on cigarettes from FY 2005 to FY 2006, the smokeless tobacco tax rate was increased from 30.0 percent to 40.0 percent of the wholesale cost of the smokeless tobacco product on July 1, 2005. After adjusting for the cigarette floor stock tax and smokeless tobacco tax rate increase of 10.0 percentage points, total cigarette tax receipts for the first eleven months of FY 2006 are down 4.1 percent compared to the same period a year ago.

Finally, the change in cigarette consumption is determined. First, the value of the cigarette floor stock tax and smokeless tobacco products tax is netted out of the data. The result is a decrease in Rhode Island cigarette consumption of 4.0 percent for the first eleven months of FY 2006 versus the first eleven months of FY 2005.

Other Taxes

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-1.2 %	-6.0 %	-6.0 %

Total other taxes collected through May of FY 2006 totaled \$44.7 million versus \$47.5 million in other taxes collected during the same period last fiscal year, a decrease of \$2.8 million, or 6.0 percent. Inheritance tax collections totaled \$28.1 million through May of FY 2006, or 9.1 percent below the \$30.9 million collected through the eleventh month of FY 2005. Given the fact that inheritance tax collections are volatile, it is not possible to make any valid comments about this revenue source. Racing and athletics tax collections through May of FY 2006 are down 12.3 percent relative to the same period in FY 2005 despite a bout of kennel cough at the Lincoln Park greyhound facility in April 2005. Realty transfer taxes are up by 3.4 percent through May of FY 2006 versus May of FY 2005. The revised FY 2006 other taxes growth estimate, adopted at the May 2006 Revenue Estimating Conference, is -1.2 percent over final FY 2005 total other taxes.

Total Departmental Receipts

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	6.7 %	2.9 %	7.7 %

FY 2006 year-to-date departmental receipts total \$253.0 million, an increase of \$7.1 million over the amount that was collected last fiscal year at this time. Actual departmental receipts for FY 2006 are up 2.9 percent when compared to receipts collected for the same period a year ago. The revised FY 2006 growth estimate is 6.7 percent over final FY 2005 departmental receipt collections adopted at the May 2006 REC. The projected growth rate adopted at the May 2006 Revenue Estimating conference incorporates the modifications established at the November 2005 Revenue Estimating Conference; primarily two adjustments in the data for FY 2005. The removal of \$22.3 million of special education services local match revenues were first accounted for in the November Revenue Estimating Conference and remain in the May Revenue Estimating Conference. Also, the reassignment of the pharmaceutical rebates received under the RIPAE program as restricted revenues effective July 1, 2005 by the General Assembly to no longer categorized as general revenues in FY 2006 departmental revenue estimates remains in effect as of the May REC. Therefore, the FY 2006 revised growth projection should not overstate expected departmental revenue growth.

In June 2005, the General Assembly re-categorized the pharmaceutical rebates received under the RIPAE program as restricted revenues effective July 1, 2005. Thus, these rebates are no longer being posted as general revenues in FY 2006 even though they were posted as such in FY 2005. Through May, FY 2005 RIPAE receipts totaled \$2.8 million. Similarly, the Auditor General determined that the revenues from the local match for EPSDT should no longer be recorded as general revenues. In FY 2005 through May, \$11.7 million of general revenues were recorded for EPSDT reimbursements. Also in June 2005, the General Assembly increased the Hospital Licensing Fee from 3.03 percent to 3.65 percent of net patient services revenue due on or before December 15, 2005. In addition, on December 15, 2005, \$12.2 million in disproportionate share hospital, or “dish”, payments were made. The FY 2006 “dish” payment was made at the 100 percent reimbursement rate, a decrease of \$13.4 million from FY 2005 when the payment was made at the temporary 175 percent reimbursement rate. Further, the General Assembly increased the rate of transfer for indirect cost recovery from 7.0 to 10.0 percent in FY 2006. Adjusting for re-categorization of RIPAE pharmaceutical rebates, the receipt of EPSDT monies in FY 2005, decrease in the “dish” reimbursement and indirect cost recovery rates yields an adjusted growth rate of 7.7 percent for FY 2006 departmental receipts.

Within the total departmental receipt components, licenses and fees are up \$23.0 million, or 15.3 percent, through May of FY 2006 versus FY 2005 through May. The hospital licensing fee rate change accounts for most of the difference, with \$71.2 million paid through May 2006 compared to \$58.6 paid through May 2005, an increase of \$12.6 million. The \$864,809 decrease in the Interim Hospital Rate Settlement payments is more than offset by the \$1.5 million more received in Multi-State Brokerage Firm Settlement collections, E-911 wireless surcharge collections which were \$1.3 million higher year-to-date in FY 2006 than FY 2005, and Historic Structures Processing Fees increase of \$808,830. In addition, year-to-date revenues through May 2006

compared to May 2005 resulted in Driving Records Abstracts increase of \$767,807, Real Estate License fees increase of 740,271, a Claims Adjusters license fees increase of \$743,656, and increased health professional regulation fees of \$644,079. Several smaller increases contribute to the net growth of 15.3 percent.

Fines and penalties are up \$4.5 million through the eleventh month of FY 2006 versus the eleventh month of FY 2005. New collection efforts by the Division of Taxation have been implemented and contributed to an increase in penalties and interest collected on overdue taxes. In particular, the denial of driver and professional license renewal to tax delinquents has caused some taxpayers to pay outstanding taxes owed including penalties and interest thereon. Tax delinquents may also enter into a time payment agreement with the Division of Taxation to begin paying such obligations in order to obtain a renewal of a driver's or professional license. As such, penalties on overdue taxes collected have risen by \$1.4 million through May 2006 versus penalties on overdue taxes collected through May 2005. Banking enforcement fees have increased by \$527,008 through May of FY 2006 compared to the same period last fiscal year and traffic tribunal fines and fees collections are up \$1.6 million through the eleventh month of FY 2006 compared to the eleventh month of FY 2005. A fine of \$760,000 was received in July for a consent order between the Department of Business Regulation and a regulated entity fined for illegally cashing checks.

Sales and services revenues are down \$13.2 million, or -33.9 percent, through May of FY 2006 versus the same period last fiscal year. The FY 2006 decrease in sales and service revenues is primarily a result of the late posting of "dish" payments as noted previously. The \$12.2 million payment is lower than the \$25.6 million received in FY 2005 because of the expiration of a two-year federal exemption providing 175.0 percent reimbursements to MHRH for disproportionate share payments. In FY 2006, these "dish" payments revert back to 100.0 percent reimbursement. After adjusting for the change in the "dish" payment reimbursement rate, the adjusted rate of growth in sales and services is -10.3 percent for the first eleven months of FY 2006 versus the first eleven months of FY 2005.

Finally, miscellaneous departmental revenues are down \$7.2 million, or 22.2 percent, through the eleventh month of FY 2006 versus the eleventh month of FY 2005. The drop in miscellaneous departmental revenues is primarily the result of the reclassification of RIPAE pharmaceutical rebates and the elimination of the EPSDT accounting entry in FY 2006, the total of which was \$14.5 million in FY 2005. Income on investments provided an offset of \$2.7 million of revenue collected on a fiscal year-to-date basis through May 2006 over the same period in FY 2005. Another adjustment must be made for the cost recovery rate change in FY 2006. Because the cost recovery rate increase for May 2005 was not enacted until June 30, 2005, cost recovery receipts were posted to general revenues at the rate of 7.0 percent and were corrected with the additional 3.0 percent posted on June 30, 2005. Therefore, at this time, the May 2006 cost recoveries of 10.0 percent must be adjusted to compare with the May 2005 cost recoveries of 7.0 percent. The adjusted growth rate for miscellaneous departmental revenues is 27.5 percent through May of FY 2006 over the same period in FY 2005.

Gas Tax Transfer

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-47.2 %	-49.5 %	0.9 %

The gas tax transfer is down 49.5 percent for year-to-date FY 2006 when compared to FY 2005 for the same period. The revised growth rate estimate for the gas tax transfer remains at -47.2 percent over the final FY 2005 transfer. The majority of this decrease in the growth rate of the gas tax transfer on a fiscal year-over-fiscal year basis is due to a decrease in the allocation of the State's \$0.30 per gallon motor fuel tax that is devoted to the general fund. In FY 2006, \$0.01 per gallon was allocated to the general fund compared to \$0.02 per gallon in FY 2005. In FY 2005, there was an overstatement of \$637,811 in July 2004 that was corrected in May 2005 and therefore no longer appears as an overstatement in the cash statement. This overstatement was explained in more detail in the April Revenue Brief. Adjusting for the change in allocation yields an adjusted rate of growth of 0.9 percent on a fiscal year-over-year basis.

Other Miscellaneous Revenues

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-15.6 %	-88.1 %	-57.9 %

Other miscellaneous revenues are down 88.1 percent through May of FY 2006 when compared to the same period one year ago. FY 2006 year-to-date collections total \$2.8 million compared to \$23.3 million collected by this time last fiscal year. The revised 2006 growth rate is -15.6 percent over final actual FY 2005 collections. Of the \$23.3 million collected in the first eleven months of FY 2005, \$3.5 million is attributable to FY 2004 for the Blue Cross Blue Shield payment. Additionally, \$6.5 million is the one-time payment to DEPCO by the Procaccianti Group for past loan defaults and \$5.7 million is the aggregate of one-time settlement receipts including a \$3 million payment from Antonio Giordano and his business partners as well as another large settlement, neither of which will recur this fiscal year. Further, \$1.0 million is attributable to the portion of the office of Accounts and Controls liquidation of accounts payable in January 2006 which were not reversed in February 2006. Accounting for these modifications, other miscellaneous revenues are down 57.9 percent.

Lottery Transfer

	<u>Revised Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	8.1 %	7.8 %	7.8 %

The lottery transfer to the general fund through May 2006 is up 7.8 percent compared to the fiscal year-to-date period through May 2005. At \$273.5 million for the first eleven months of FY 2006 and \$253.8 million for the first eleven months of FY 2005, the lottery transfer is lower than the estimate of 8.1 percent adopted at the May 2006 Revenue Estimating Conference. There were no changes made to the distribution of video lottery net terminal income (NTI) in the FY 2006 budget.

In the first eleven months of FY 2006, the State's share of video lottery NTI grew 6.2 percent versus the same period in FY 2005. This exceeds the revised growth estimate of 7.2 percent adopted at the May 2006 Revenue Estimating Conference.

The transfer to the State general fund from instant and monitor games is up 13.0 percent through May of FY 2006 versus the same period last fiscal year, most likely due to the large Powerball jackpots this fiscal year. The May Revenue Estimating Conference's revised FY 2006 growth rate estimate for instant and monitor games was 11.7 percent.

Rosemary Booth Gallogly, State Budget Officer
June 19, 2006

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

May 2006 Revenue Report

(Fiscal Year 2006)

	FY 2005 YTD May	FY 2006 YTD May	Actual Growth	Preliminary Growth
Personal Income Tax	\$ 878,197,792	\$ 903,827,758	2.9%	2.5%
General Business Taxes				
Business Corporations*	\$ 84,054,400	\$ 120,602,730	43.5%	36.2%
Public Utilities Gross Earnings	\$ 39,086,430	\$ 45,318,990	15.9%	10.0%
Financial Institutions	\$ (1,484,878)	\$ (242,635)	-83.7%	-79.7%
Insurance Companies	\$ 26,119,590	\$ 27,047,040	3.6%	0.3%
Bank Deposits	\$ 634,423	\$ 604,070	-4.8%	5.0%
Health Care Provider Assessment	\$ 42,885,134	\$ 42,536,349	-0.8%	2.5%
Excise Taxes				
Sales and Use	\$ 769,349,922	\$ 793,195,973	3.1%	3.2%
Motor Vehicle	\$ 40,055,511	\$ 45,097,425	12.6%	3.5%
Motor Fuel	\$ 885,160	\$ 1,017,267	14.9%	-38.8%
Cigarettes	\$ 124,192,949	\$ 115,029,432	-7.4%	-7.1%
Alcohol	\$ 9,729,987	\$ 9,381,666	-3.6%	1.5%
Controlled Substances	\$ -	\$ -	-	-
Other Taxes				
Inheritance and Gift	\$ 30,915,785	\$ 28,090,647	-9.1%	-3.0%
Racing and Athletics	\$ 3,635,609	\$ 3,188,493	-12.3%	-12.3%
Realty Transfer	\$ 12,942,420	\$ 13,385,031	3.4%	6.1%
TOTAL TAXES	\$ 2,061,200,234	\$ 2,148,080,236	4.2%	4.0%
Departmental Receipts				
Licenses and Fees	\$ 150,094,083	\$ 173,079,436	15.3%	-100.0%
Fines and Penalties	\$ 24,682,393	\$ 29,144,878	18.1%	-100.0%
Sales and Services	\$ 38,833,039	\$ 25,677,752	-33.9%	-100.0%
Miscellaneous	\$ 32,247,383	\$ 25,078,170	-22.2%	-100.0%
TOTAL DEPARTMENTAL RECEIPTS	\$ 245,856,898	\$ 252,980,236	2.9%	6.7%
TAXES AND DEPARTMENTALS	\$ 2,307,057,132	\$ 2,401,060,472	4.1%	4.3%
Other General Revenue Sources				
Gas Tax Transfer	\$ 8,617,404	\$ 4,349,528	-49.5%	-47.2%
Other Miscellaneous Revenues	\$ 23,300,166	\$ 2,762,740	-88.1%	-15.6%
Lottery Transfer	\$ 253,841,647	\$ 273,549,646	7.8%	8.1%
Unclaimed Property	\$ -	\$ -	-	-
TOTAL OTHER SOURCES	\$ 285,759,217	\$ 280,661,914	-1.8%	4.5%
TOTAL GENERAL REVENUES	\$ 2,592,816,349	\$ 2,681,722,386	3.4%	4.3%

* Business Corporations tax includes both corporate income tax and franchise tax collections.